# GOVERNMENT OF INDIA
# FINANCE
# LOK SABHA

UNSTARRED QUESTION NO:4929
ANSWERED ON:31.03.2017
Penny Stocks
Kambhampati Dr. Hari Babu;Pal Shri Jagdambika

**Will the Minister of FINANCE be pleased to state:**

(a) whether the Government is aware that a large number of listed penny stocks are being misused by stock brokers for the purpose of tax evasion and if so, the details thereof;
(b) whether any action has been taken by the Government/Securities and Exchange Board of India (SEBI) against such penny stocks and if so, the details thereof;
(c) whether the Government has formulated any proposal to check such tax evasion by way of penny stocks through amendments in the Income Tax Act, 1961 and SEBI Act, 1992 or any other legislators and if so, the details thereof;
(d) whether any complaints have been received from the members of the public or other bodies against such companies and if so, the action taken so far in this regard; and
(e) whether the Income Tax Department has launched any proceedings against money laundering using penny stocks and if so, the details thereof ?

## Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI SANTOSH KUMAR GANGWAR)

(a) & (b): Certain companies listed on Stock Exchange, which were either non-operational or had weak fundamentals and unsupportive price volume movements were noticed having been misused by some of the entities for manipulations including tax evasion. The Income Tax Department (ITD) has conducted investigations (including searches and surveys in more than 100 groups during financial year 2015-16 and 2016-17) in large number of such cases and taken appropriate actions as per provisions of the Income-tax Act, 1961. ITD has also referred to the Securities and Exchange Board of India (SEBI) more than 140 unique scrips which were apparently found having been manipulated. Based on information received from the ITD as also its own surveillance systems, SEBI has passed orders, under section 11(B) of the SEBI Act, 1992, in case of 13 such companies and debarred 1336 entities. As a surveillance measure the exchanges have suspended trading in the shares of 203 companies. The price band of 168 companies was reduced to the lowest band of 2 per cent by the exchanges.

Government, SEBI and Stock Exchanges maintain constant vigil in the market, and in case of any abnormality, take appropriate action against the entities concerned. The systems and practices are in place to promote a safe, transparent and efficient market and to protect market integrity. The systems instituted include advanced risk management mechanisms comprising continuous monitoring and surveillance, various limits on positions, margin requirements, circuit filters, etc. The systems and practices are reviewed continuously and modified to meet emerging needs. Whenever any violation of SEBI rules and regulations are observed, appropriate action as warranted is taken by SEBI against entities concerned.

(c): Under the existing provisions of Section 10(38) of the Income-tax Act, 1961 (the Act), the income arising from transfer of a long term capital asset, including equity share of a company, is exempt from tax if the transaction of sale is undertaken on or after 01.10.2004 and is chargeable to Securities Transaction Tax under Chapter VII of the Finance (No. 2) Act, 2004.

In order to check the practice of tax evasion by declaring unaccounted income as exempt long term capital gains arising from manipulated transactions in shares of listed companies, vide Finance Bill, 2017, Government has proposed to amend section 10(38) of the Act to provide that exemption under this section for income arising on transfer of equity share acquired on or after 01.10.2004 shall be available only if the acquisition of share (except acquisitions to be notified as exempt to protect genuine investors) is chargeable to Securities Transactions Tax under Chapter VII of the Finance (No. 2) Act, 2004.

(d) & (e): Whenever a complaint of market manipulation is received against such companies, appropriate action is taken by the SEBI and exchanges concerned. Complaints of tax evasion are acted upon by the ITD. The actions taken against the companies/entities as submitted in part (a) & (b) above include actions pursuant to certain complaints. Investigation into matters regarding tax evasion in such cases is an ongoing process and whenever any such instance comes to the notice of the department, appropriate action including searches, surveys, assessment of income, levy & recovery of tax, imposition of penalty and launching of prosecution, is taken as per law, depending upon the facts and circumstances of each case. However, disclosure of information in respect of specific assessees is prohibited except as provided under section 138 of the Act.

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